Pension Fennia Biannual Review of Operations 1 January – 30 June 2012

- Investment income stood at 3.6%
- Solvency remained on a secure level; the solvency ratio was 18.6% of the technical provisions and the solvency margin was 2.4 times the solvency limit
- Effective operations with an administration cost surplus of 25.9%; increased investments in the development of pension customer service
- Pension Fennia holds a strong position as an employment pension insurer of self-employed persons

Pension Fennia's key figures

	1.1.-30.6.2012	1.1.-30.6.2011	1.1.-31.12.2011
Premiums written, EUR million	**670,5**	561,7	1 198,2
Pensions and other compensations paid, EUR million	**619,6**	537,3	1 122,4
Net investment income and change in valuation differences, EUR million [1)]	**245,9**	27,1	-107,9
Investment income, % [1)]	**3,6**	0,4	-1,6
Technical provisions, EUR million	**6 410,4**	6 351,1	6 257,3
Solvency margin, EUR million [2)]	**1 119,5**	1 159,7	975,9
ratio to solvency limit	**2,4**	2,5	2,6
ratio to technical provisions [3)]	**18,6**	19,9	16,5
Pension assets, EUR million [4)]	**7 135,1**	6 963,2	6 857,5
TyEL payroll, EUR million [5)]	**5 005,3**	4 677,4	4 745,5
YEL earned income sum, EUR million [5)]	**855,5**	723,6	805,8
Number of TyEL policyholders	**23 620**	23 320	23 620
Number of TyEL insured	**183 320**	174 560	185 660
Number of YEL policyholders	**40 210**	38 110	39 320
Number of pensioners	**85 630**	83 960	84 850
Number of personnel (on average)	**263**	255	256

[1)] Includes those interest items in the income statement that are not entered under investment income
[2)] Solvency margin includes an EMU buffer of EUR 251 million on 30 June 2012, EUR 243 million on 30 June 2011, EUR 246 million on 31 December 2011.
[3)] In relation to the technical provisions used in calculating solvency limit
[4)] Technical provisions and valuation differences
[5)] Estimated annual payroll and earned income sum for the TyEL insured and YEL policyholders

Development of the operating environment

At the beginning of 2012, a positive atmosphere prevailed within the stock market, with high expectations for global economic growth continuing from the end of the previous year. During the second quarter, however, the market experienced a clearly more negative turn, primarily in response to the assistance provided to more heavily indebted countries within the Euro Zone. Furthermore, in China, growth forecasts were adjusted downwards, and the economic growth in the USA did not meet with the expectations expressed at the start of the year. By the end of March, the stock market prices had risen by nearly 15%, but subsequently weakened again to the level experienced at the beginning of the year. The budget cuts of the Euro states have a direct impact on the purchasing power of households and employment. Furthermore, they weaken economic growth, which is sorely needed in order to right the poor budgetary dynamics of these countries. While companies have, for the time being, been able to preserve a relatively good profit status, it seems, in light of forecasts, that the profit development for the coming quarters will be minor.

Central bank interest rates have held and will continue for a while yet to hold as the lowest in history. Furthermore, the central banks appear to be ready to support the investment markets by pumping them with liquidity and, even, by direct interventions with the intent of preventing excessive increases in the capital costs of indebted countries. The interest market in the Euro Zone is highly heterogeneous, which tells of big problems in the maintenance of European economic unity and stability. Europe's future will involve a great deal of political insecurity and arm twisting, a situation that has already weakened the Euro and the operating environment for both companies and consumers.

Pension insuring

At the end of June, Pension Fennia was handling the pension insurance for 183,320 employees and 40,210 self-employed persons. The total number of the insured was 212,670. The premium income for the period of 1 January –30 June 2012 stood at €670 million (€562 million for 1-6/2011) and it is estimated to total €1,341 million for 2012, which is up 11.9% from the previous year.

The three transfer rounds of employment pension policies in 2012 reduced Pension Fennia's premium income by a total of €4.1 million. The net reduction of TyEL policies in the three transfer rounds was 45 and the net increase of YEL policies was 112. A total of 1,571 TyEL policies and 2,580 YEL policies were acquired through new customer prospecting (actual for January-June).

At the end of June, the number of pension recipients was 85,630. Pensions paid in the period from January to June totalled nearly €496 million. Altogether 2.5% less pension decisions (concluded pension cases) were made in January-June than during the corresponding period of the previous year.

During 2012, Pension Fennia mailed out approximately 227,000 updated pension records to the TyEL and YEL insured. The statements were mailed out by the end of June. Pension records are sent to those persons aged 18-67, who have been employed in the private sector or as a self-employed person. In addition to the records sent to self-employed persons, Pension Fennia also enclosed a brochure that told about the effect of YEL income on social security, and endeavoured to emphasise, for the insured, the importance of an appropriate income level.

Investment activities

At the end of June, the value of Pension Fennia's investments stood at €7,093 million and the investment income was 3.6% for the first half of the year. A more detailed specification of assets and income is presented in the tables below.

Pension Fennia's investment allocation

	30.06.2012		30.06.2011		31.12.2011	
	EUR million	%	EUR million	%	EUR million	%
Fixed-income investments	**3 732,5**	**52,6**	**3 792,4**	**54,9**	**3 813,5**	**56,3**
Loans	354,1	5,0	420,7	6,1	390,1	5,8
Bonds	2 837,0	40,0	2 652,9	38,4	2 687,6	39,7
Bonds of OECD/EEA public corporations	870,3	12,3	1 183,0	17,1	1 036,0	15,3
Bonds of other corporations	1 966,7	27,7	1 469,8	21,3	1 651,6	24,4
Other money market instruments and deposits including any receivables and liabilities related to investments [1)]	541,5	7,6	718,8	10,4	735,8	10,9
Equities	**1 648,2**	**23,2**	**1 635,2**	**23,7**	**1 297,5**	**19,2**
Listed equities	1 418,4	20,0	1 423,3	20,6	1 079,7	15,9
Private equity investments	131,3	1,9	111,2	1,6	114,4	1,7
Unlisted equity investments	98,5	1,4	100,6	1,5	103,4	1,5
Real estate	**899,7**	**12,7**	**858,3**	**12,4**	**900,0**	**13,3**
Direct real estate investments	671,3	9,5	654,1	9,5	674,9	10,0
Real estate funds and joint investment companies	228,3	3,2	204,3	3,0	225,1	3,3
Other investments	**812,6**	**11,5**	**622,6**	**9,0**	**761,9**	**11,2**
Hedge fund investments	791,4	11,2	608,2	8,8	740,8	10,9
Other investments	21,3	0,3	14,4	0,2	21,1	0,3
Total investments	**7 093,0**	**100,0**	**6 908,6**	**100,0**	**6 772,8**	**100,0**
Modified duration of bond portfolio		3,8		4,0		3,7

Pension Fennia's investment risk distribution and risk figures on investments on 30 June 2012

	Market value		Risk distribution		Return	Vola
	EUR million	%	EUR million	%	%	%
Fixed-income investments	**3 732,5**	**52,6**	**3 685,1**	**52,0**	**4,0 %**	
Loans	354,1	5,0	354,1	5,0	1,4 %	
Bonds of OECD/EEA public corporations	870,3	12,3	713,2	10,1	2,4 %	3,4 %
Bonds of other corporations	1 966,7	27,7	1 966,7	27,7	5,9 %	
Other money market instruments and deposits including any receivables and liabilities related to investments	541,5	7,6	651,2	9,2	0,8 %	
Equities	**1 648,2**	**23,2**	**1 695,6**	**23,9**	**4,8 %**	
Listed equities	1 418,4	20,0	1 465,9	20,7	4,8 %	15,0 %
Private equity investments	131,3	1,9	131,3	1,9	4,4 %	
Unlisted equity investments	98,5	1,4	98,5	1,4	4,9 %	
Real estate	**899,7**	**12,7**	**899,7**	**12,7**	**3,8 %**	
Direct real estate investments	671,3	9,5	671,3	9,5	4,2 %	
Real estate funds and joint investment companies	228,3	3,2	228,3	3,2	2,8 %	
Other investments	**812,6**	**11,5**	**812,6**	**11,5**	**0,6 %**	
Hedge fund investments	791,4	11,2	791,4	11,2	2,7 %	4,4 %
Other investments	21,3	0,3	21,3	0,3	-28,5 %	
Total investments	**7 093,0**	**100,0**	**7 093,0**	**100,0**	**3,6 %**	**4,1 %**

Market value includes accrued interest
Risk distribution = calculated according to the risk (adjusted with derivatives)
Return = return on invested capital calculated with a time and money-weighted formula (adapted Dietz)
Vola = annualised volatility calculated from two years' history
Modified duration of bonds 3,82

Pension Fennia's investment income

	Net return on investments at current value, EUR million 1.1.-30.6.2012	Invested capital, EUR million 1.1.-30.6.2012	Return on invested capital, % 1.1.-30.6.2012	Return on invested capital, % 1.1.-30.6.2011	1.1.-31.12.2011
Fixed-income investments	**145,0**	**3 666,5**	**4,0 %**	**1,6 %**	**3,3 %**
Loans	5,2	374,1	1,4 %	1,8 %	3,5 %
Bonds	136,3	2 859,7	4,8 %	1,9 %	3,8 %
Bonds of OECD/EEA public corporations	21,9	932,9	2,4 %	0,9 %	4,2 %
Bonds of other corporations	114,4	1 926,8	5,9 %	2,5 %	3,5 %
Other money market instruments and deposits including any receivables and liabilities related to investments	3,4	432,8	0,8 %	0,6 %	1,6 %
Equities	**70,3**	**1 465,2**	**4,8 %**	**-3,3 %**	**-15,5 %**
Listed equities	60,3	1 247,5	4,8 %	-4,1 %	-18,4 %
Private equity investments	5,3	122,1	4,4 %	3,7 %	5,4 %
Unlisted equity investments	4,7	95,6	4,9 %	2,3 %	7,4 %
Real estate	**34,1**	**891,0**	**3,8 %**	**4,2 %**	**9,2 %**
Direct real estate investments	27,8	666,3	4,2 %	3,4 %	8,4 %
Real estate funds and joint investment companies	6,3	224,7	2,8 %	7,7 %	12,1 %
Other investments	**4,7**	**806,4**	**0,6 %**	**0,0 %**	**-2,7 %**
Hedge fund investments	20,0	752,8	2,7 %	0,2 %	-3,3 %
Other investments	-15,3	53,6	-28,5 %	-31,2 %	40,6 %
Total investments	**254,1**	**6 829,1**	**3,7 %**	**0,5 %**	**-1,4 %**
Unallocated income, costs and operating expenses from investment operations [1]	-8,2		-0,1 %	-0,1 %	-0,2 %
Net investment income at current value	**245,9**		**3,6 %**	**0,4 %**	**-1,6 %**

[1] Including e.g. such interest items in the income statement that are not entered under investment income.

Result and solvency

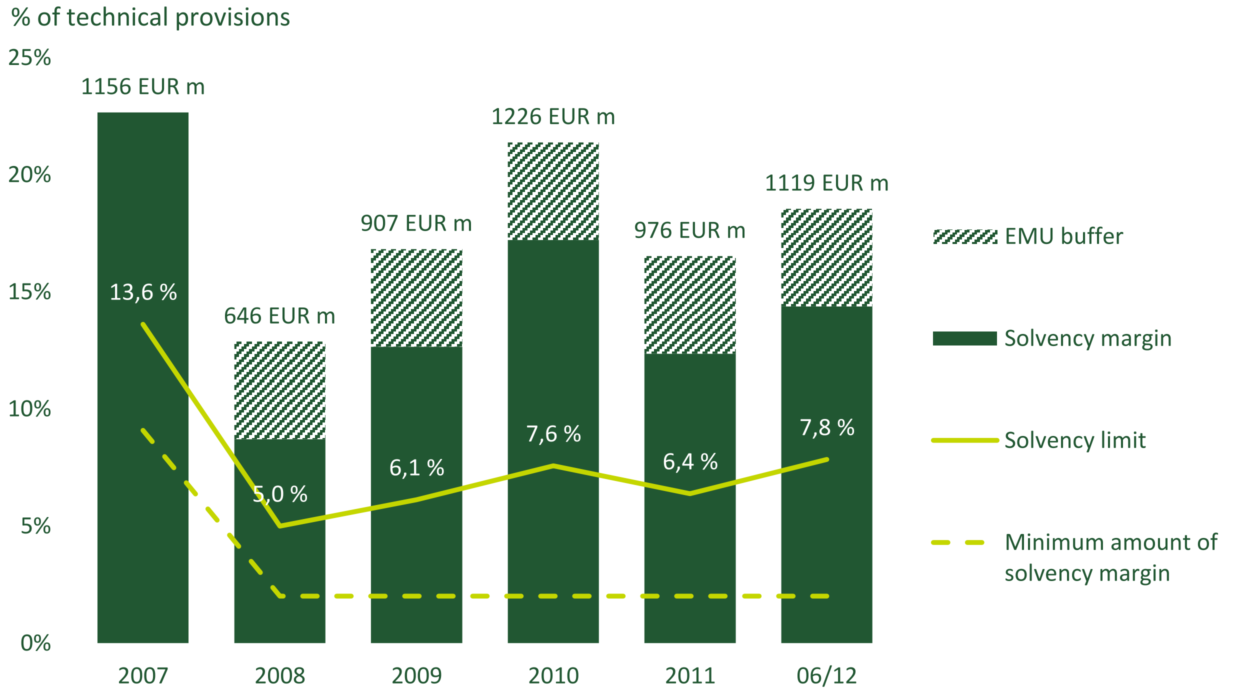
Pension Fennia's total result at fair values was 137 million euro (-83 million euro in 2011) for the first half of the year. This total result is comprised of investment income at fair values totalling €132 million, income from insurance business equalling €-2 million, and a loading profit of €7 million. Pension Fennia spent 74% of the expense loading of the insurance premium on operating costs. At the end of June, Pension Fennia's solvency margin stood at €1,119 million and was 18.6% of the technical provisions. The solvency position i.e. the ratio of the solvency margin to the solvency limit was 2.4. These figures include the EMU buffer in accordance with the exceptive law. Without the EMU buffer, the solvency margin stood at €868 million, the solvency ratio was 13.8% of the technical provisions and the solvency position 1.8.

Pension Fennia's sources of result

EUR million	1.1.-30.6.2012	1.1.-30.6.2011	1.1.-31.12.2011
Sources of surplus			
Insurance business result	**-2,3**	**-13,3**	**-24,1**
Investment result at current values	**132,3**	**-75,1**	**-256,6**
+ Net investment income at current value [1)]	245,9	27,1	-107,9
- Yield requirement on the technical provisions	-113,6	-102,2	-148,7
Loading profit	**7,3**	**5,4**	**12,2**
Total surplus	**137,2**	**-83,0**	**-268,5**

[1)] Includes those interest items of the profit and loss account that are not entered under investment income

Pension Fennia's solvency margin and its limits



Future outlook

The result of the first six months have been surprisingly good despite the weakening economic growth on the global scale and a swelling debt crisis on the European front. The income development in high-risk investments, which has remained good post June, is based on the expectations for the strong stimulus efforts of the central banks. The economic outlook for the coming months remains exceptionally uncertain. The economic indicators are the weakest they have been globally since 2008, although some gradual levelling off has been detected. On the other hand, the prices of raw materials and inflation have calmed.

China continues its expansive fiscal policy by lowering, among other things, its steering rate and continuing with targeted stimulus packages. Additionally, many other developing countries have assumed a stimulating trend in their fiscal policies. The USA's strong stimulus package, which is in place to help avoid a financial crisis, will end at the beginning of 2013. Decisions concerning the continuation of these support measures will be hindered by the USA's high debt level and the forthcoming presidential elections.

With a few exceptions, the European economy is on a decline. The debt crisis of the states in Europe and the problems within the banking system have further worsened, which is reflected in the value of the Euro and the credit risk margins of those states that are most in debt. The European Central Bank (ECB) has stated its intentions to ensure that the value of the Euro will remain stable, that country-specific credit risk margins will normalise and that the credit market of the private sector will become activated. The primary responsibility for the debt crisis lies, however, with the states in question, in other words, with the politicians. Thus, states must request funding from the European Financial Stability Facility (EFSF), which will ensure that the necessary structural reforms will be enacted and that the budgetary discipline endures. Only after this is done will the ECB consider funding. The next few weeks are crucial as the ECB is preparing a new method of financing, and as Spain and Italy consider enacting a request for funding. The Federal Reserve of the United States (FED) is expected to revive the economy with its new stimulus package at the beginning of September. The fiscal policies of the central banks are more innovative and polymorphic than they have been in the past.

It is difficult to predict the result for the remainder of the year and the coming months are presumed to be unsteady within the markets.

The validity of the exceptive law concerning the solvency of the employment pension providers will terminate at the end of 2012. The risk bearing capacity of the pension providers will be reinforced with a law set to enter into force on 1 January 2013. The aim of the new law is to secure the profitable investment activities of the pension providers. For the purpose of testing the solvency capital requirement, the current buffers (solvency margin and equalization amount) will be combined to form the so-called solvency capital.

The figures presented in this biannual report are those of the parent company and have not been audited. Pension Fennia will publish its financial statements for 2012 in March 2013.

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